

MANAGEMENT'S DISCUSSION & ANALYSIS

When you conduct Cold War military intelligence, you often keep to yourself. Secret agents get involved in covert activities - but rarely deep personal relationships. Now, George is turning the tables by giving back to his neighbors. He volunteers as a social worker here, escorting patients with limited vision. (You might say he's lending his expert surveillance skills to help the public.) George also enjoys daily walks around campus and did the Freedom Walk twice. Plus he just got his dream car: a Charger 3000. "There's quite a bit of good here, especially the medical care," he observed. That's a relief, given how George came to AFRH without seeing it first. "When the Army sent me somewhere, they didn't ask me to check it out first."

Improved financial performance is the cornerstone of our strategy. And "Forging New Foundations" has been our battle cry, calling for steady progress on each campus. As you will see here in the MD&A, that progress has been rock solid.

In this part, we discuss:

- Strategic Goals
- AFRH Organization
- Our Locations
- The Residents & Staff
- Performance Achievements
- GSA Customer of the Year
- Summary of Performance Measures
- The President's Management Agenda
- 2007 Financial Summary
- Management Assurances
- Letter of Assurance
- Controls, Systems & Compliance
- Risk Management



"When the Army sent me somewhere, they didn't ask me to check it out first."

George Wellman (Army – Retired)



Introduction to MD&A

Strengthening Our Base

Today’s AFRH has sheltered and cared for tens of thousands of veterans spanning two centuries and nine major American conflicts. All along, the option to retire here has been one of the greatest benefits of military service. As our nation expands its military presence around the globe, we must rededicate ourselves to preserving the Home’s resources – and ensuring those eligible a safe, comfortable retirement one day.

This mission can only be achieved with sound financial performance. In truth, the Home was bordering on insolvency for decades – mostly from cost inefficiencies on its sprawling Washington campus. Conversely, the Gulfport campus was more condensed and had a waiting list of approved applicants – making it much more cost-effective.

When the Trust Fund balance began to decline in 1995, Congress requested further study. AFRH responded by facilitating and executing many in-depth assessments:

AFRH STUDIES

| 1995 | 1999 | 2000 | 2001 | 2001 | 2002 |
|-------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>The Coopers & Lybrand Strategic Study:</i> | <i>The Army Inspector General Triennial Review Report:</i> | <i>More Efficient Organization Study - Gartner & Associates</i> | <i>Sen. Lott (R-MS) requested a Military Service Study Group</i> | <i>Actuarial Study by A.V. Powell & Associates, Inc.</i> | <i>The Navy Inspector General Triennial Review Report</i> |
| <i>Recommended a Most Favorable Use of existing AFRH real property.</i> | <i>Advised an efficiency study before employing cost-saving measures.</i> | <i>Proposed we hire a COO, close the Pipes Building, reduce medical services staff and consolidate resource management at the agency level.</i> | <div><i>Study goal:</i> <i>Develop a short- and long-term plan to address AFRH insolvency. It proposed swift legislative changes to adopt a long-term</i></div> <div><i>Capital Improvement Plan, build an intermediate and long term care facility in Gulfport and restructure management by hiring a COO.</i></div> | <i>Analyzed the long term healthcare needs in Gulfport, MS</i> | <div><i>Conclusion</i> <i>“The change in direction over the past year at AFRH has been impressive. These efforts add credibility to the potential of</i></div> <div><i>AFRH to serve as a model of compassionate care to some of this nation's most deserving elderly.”</i></div> |

Altogether, these studies chart our strong efforts and swift response in reversing the trend of insolvency at AFRH. By 2002, the foundation for our future was laid. This report outlines our impressive progress over the past five years.



WWII veterans from the DC metro area pose with Queen Elizabeth wreath at the National WWII Memorial.

Corporate Philosophy:

Our Vision and Mission are strongly rooted in the Home’s heritage – yet they also incorporate modern philosophies in senior care. Plus our Guiding Principles were crafted to preserve the Home’s foundation – while also serving as a guide to achieve the Mission. Ultimately, these smart strategic tools will help us meet the needs of a new generation of veterans.

Authority

- [From Public Law] - 24 US Code, Section 411 Establishment of Armed Forces Retirement Home
- (b) Purpose - The purpose of the Retirement Home is to provide, through the Armed Forces Retirement Home-Washington and the Armed Forces Retirement Home-Gulfport, residences and related services for certain retired and former members of the Armed Forces.

AFRH Strategy

Our Strategic Goals

AFRH is a premier retirement community and CCRC for eligible US Armed Forces veterans. We proudly serve them with the same level of honor and commitment that they demonstrated in serving our country. To fulfill our Mission, we have defined Strategic Goals across five major

areas. They serve as the pillars for specific performance objectives – which are connected to Initiatives in the President's Management Agenda (PMA). Plus these Goals continually help us build upon our success for the future.



"I would've ended up in San Quentin – but my grandmother put me in the military. That straightened me out!"



Jerry Stahler didn't have a choice when enlisting. "I was a pain-in-the-butt kid, always in trouble. I would've ended up in San Quentin – but my grandmother put me in the military. That straightened me out!" In the Air Force, Jerry had several tours as a boot camp instructor – teaching impressionable kids discipline. Ironical, eh? "Yeah, I used to get in their faces. Now I run into my recruits all over. A B-52 pilot from 'Nam came up to me and said he was an Aircraft Commander and a successful Captain. Guess he wanted to get in my face!" Today 78-year old Jerry maintains discipline by exercising six days a week. "AFRH has a wonderful gym. Watch me bench 185 lbs."

AFRH Organization

“Our 2002 goals included ‘re-visioning’ AFRH as a modern CCRC.”

Mapping Our Structure

The Organization

The AFRH was originally conceived as an “asylum” for old and disabled sailors and soldiers. It started in Philadelphia as the Naval Asylum, in the former country mansion of the prominent Pemberton family on the Schuylkill River. And in Washington as the Soldiers’ Home, with a mere three residents in what is now the Lincoln Cottage on our main campus. For six generations thereafter, these Homes have been a beacon of security for America’s aging guardians of freedom. Today, that tradition endures. Yet, AFRH has truly developed into a progressive retirement home with sound business practices.

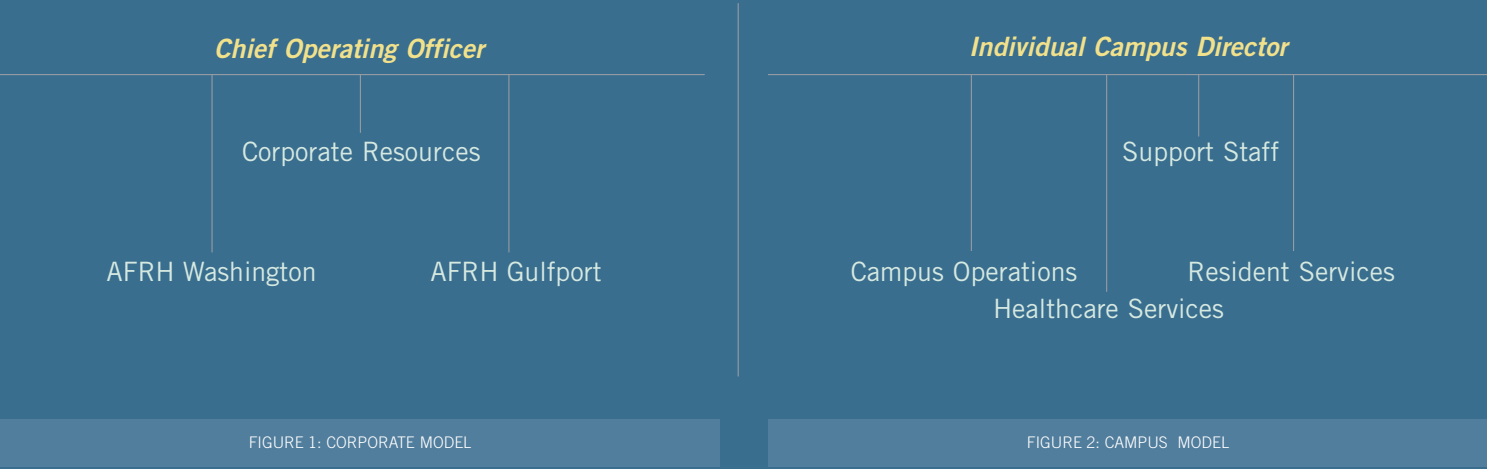
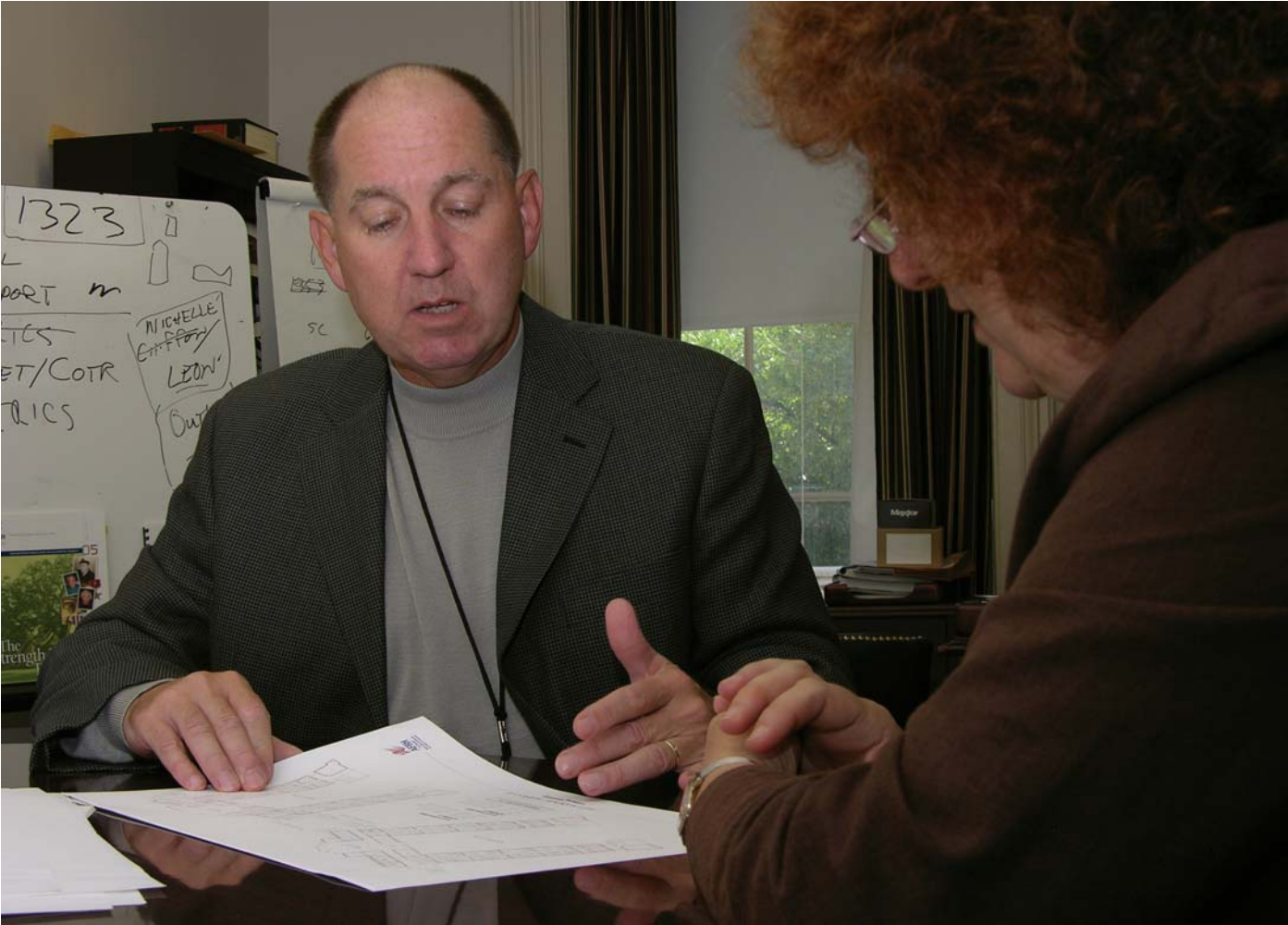
Our Management

The COO manages both campuses with a corporate staff located on the Washington campus. [see figure 1.] Using our successful “One Model” for operations, each Home has a Director who reports directly to the COO. [see figure 2.]

Our Locations

The AFRH has two facilities. Our main campus is located on 272 lush acres in the heart of Washington, DC. Our auxiliary campus is nestled on 49 acres of pristine beachfront property in historic Gulfport, MS. When Gulfport reopens in 2010, both will provide excellent services and amenities that rival those at private retirement homes. For eligible veterans, the AFRH monthly fees are very affordable – and there are no costly registration dues.

CFO Steve McManus outlines our corporate strategy.



Both campuses have the same management structure:

| CAMPUS OPERATIONS | HEALTHCARE SERVICES | RESIDENT SERVICES | SUPPORT STAFF |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Facility Maintenance Transportation Logistics Grounds Utilities Custodial Services | Nursing Social Services Community Health Dental Optometry Nutrition Medical Records Assisted Living Long Term Care Memory Support | Admissions Recreational Services Volunteer Coordination Security Dining Services Religious Activities Custodial Services | Safety Office |

Our Locations

Washington

This campus is literally “a city within a city.” It has everything one could ever need: banks, chapels, a mail room, PX, laundry facilities, a barber shop, beauty salon, several dining areas, 24-hour security staff plus private rooms with cable TV and phone access. Not to mention scenic, sprawling grounds for walking, reflection and solace.

As we march into the future, we’ll continue to design innovative services and amenities with future residents in mind. After all, the next generation of retiring veterans will have greater expectations than those of the past. So, our final charge will be to make AFRH the most vibrant and enjoyable retirement community possible.

The Washington campus is our sole facility for now. So, management has made refurbishing it a top priority in its short-term strategy. Specifically, we’ll focus on capital improvements to existing structures with deficiencies.

A few years ago, AFRH retained GSA and hired consultants to draft a Master Plan to develop our under-utilized land in Washington. This Plan will guide the long-term use and development of our property to generate revenue for repairs. Albeit, this development may take 10 or more years, depending upon market conditions.

Several analyses were conducted to guide development:

- 10-year Financial Capital Plan Development
- Contract Integration & Efficiencies Study
- Cost-effective Use & Modernization of Dorms
- Information Technology Assessment
- Medical Equipment Needs Assessment
- Trust Fund Solvency Analysis
- Wellness Center Study

Gulfport

While this campus was closed in August 05 due to the damage from Hurricane Katrina, it has a bright future. Congress generously provided funds to relocate the Gulfport residents to the Washington campus – and to rebuild the damaged and outdated facility. AFRH has turned over the Gulfport keys to GSA, which has been charged by Congress to rebuild it. Demolition of the resident tower will start in October 07. Plus GSA has hired an engineering firm to manage the construction and its grand reopening is slated for 2010.

Progress:

- | | |
|-----------|---------------------------------------------------------------------------------------------|
| Oct. 2006 | – All remaining salvageable items are removed from Gulfport |
| | – Military memorabilia is stored in nearby Naval Construction Battalion (SEABEE) base |
| Nov. 2006 | – Gulfport campus officially closes its doors |
| Jan. 2007 | – GSA and AFRH sign MOA to rebuild Gulfport |
| Feb. 2007 | – AFRH turns over the Gulfport keys to GSA |
| Mar. 2007 | – GSA designates Jacobs Engineering as construction managers to rebuild Gulfport |
| Aug. 2007 | – Demolition contract is awarded to raze damaged building (completion target: January 2008) |
| Sep. 2007 | – Web-cam to monitor Gulfport demolition via afrh.gov is initiated |
| | – The Design/Build contract is awarded to Yates Construction |



Residents & Staff

Adlyn Wilson and Donna Matthias are nurses who truly care for the residents.



The AFRH Residents

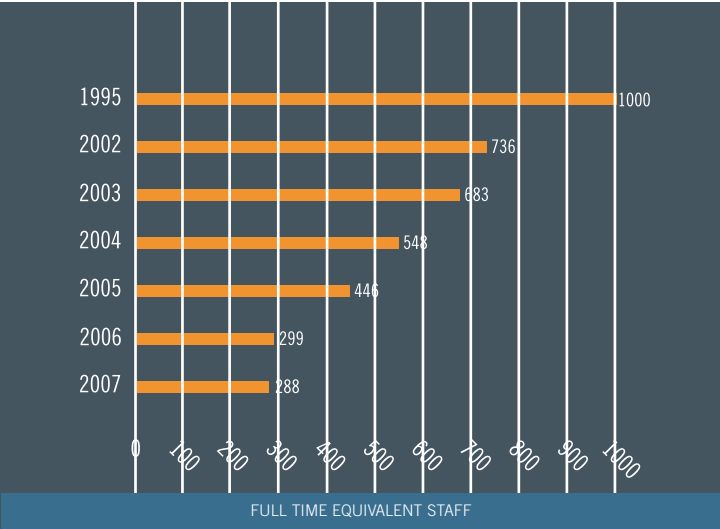
The Home is a dynamic community of men and women who have served our country with steadfast devotion. Since the 1800s, tens of thousands of prior military service members have lived on these grounds. A stroll across our scenic Washington campus often winds up in a conversation with one of our engaging residents. Every patriot has a unique story – filled with vivid anecdotes and captivating battle tales. And many enjoy reliving their glory days while serving Uncle Sam.

Most of the residents seek a retirement filled with meaning and purpose. So, we strive to enrich their daily routines ... to challenge their minds and bodies ... and to provide companionship and camaraderie in a supportive community setting. We achieve this through a variety of social, recreational and occupational programs that foster health and wellness.

Our Dedicated Staff

Our employees play a huge role in helping our residents build new lives. Many staff members routinely go the extra mile to create a new program, improve an existing service, or brighten a resident’s day. Truly, with the help of our great people, we have been successful.

In the 1990s, AFRH was mainly staffed with Federal employees and the resident population was much larger. As residency declined, so did our staff. Since 2002, one Goal has been to maximize our workforce through a blend of salaried professionals and contracted experts. To reduce costs, various functions were put up for competitive sourcing and were awarded to private firms that were more proficient and cost-effective. Regrettably, the temporary closure of Gulfport made additional staff reductions necessary. This year, AFRH has stabilized at 288 full time equivalents.



Performance Achievements

Measuring Our Progress

HIGHLIGHTS

GOAL - Financial Growth:
Create net growth and stability for the AFRH Trust Fund.

The formula to attain financial solvency is simple: increase revenue, reduce costs and improve financial performance. Hence, our vision is to provide the “best value” to our residents through maximum fiscal management.

Indeed, FY07 was a banner year for financial achievement. The Trust Fund balance rose to \$159 million – from a low of \$94 million in FY03. We made inroads on our Washington Master Plan and we’re close to eliminating more vacant space and reducing our infrastructure costs. And new studies on capital improvements, Trust Fund solvency and IT are revealing new ways to economize. Plus, our Internal Control program has been operating successfully for more than a year now.

In accounting, we received our third annual “unqualified opinion,” thanks to Bureau of Public Debt’s (BPD) strong financial management. Truly, our key to success has been to reach out to “centers of excellence” for additional expertise.

GOAL - Improved Processes:
Modernize operations to leverage and maximize resources across AFRH.

To boost efficiency, we routinely assess and revamp our processes. So, in FY07, we aligned all strategies and processes with the corporate and campus level – yielding instant efficiencies. Also, we scrutinized our financial processes and in-house databases in concert with BPD. This, too, has resulted in better reporting and service to the residents.

Another focus in FY07 was to enhance communications by keeping technology current and available to the entire AFRH community. For instance, Channel 99/100 has been well received as a form of instant communication. The residents (and even staff) tune in for daily news, campus announcements, dining menus, videotaped group meetings, daily quotes and answers to popular questions.

In FY07, we made solid progress on our Strategic Goals and met many of the performance measures that hold our staff to a high standard. In fact, we realized great success in the areas of financial improvement, performance management and customer service. We were less effective in areas that required in-depth analysis, such as acquisition. Likewise, our rather extensive training program is not complete. Still, we finished several key studies, which will serve us in the future as we strive for even greater efficiencies.



Our residents made great strides, themselves, by competing in the AFRH Senior Olympics. Here, Renato Julian (Navy – Retired) runs the Relay Race.

GOAL - Learning & Growth:
Promote personal excellence and professional growth for all personnel.

Preparing our staff to serve the residents is vital. It promotes Exceptional Service, plus it helps fulfill several Objectives. The AFRH has high standards for staff training. We require 100% participation in four training courses and provide more than 136 hours of health and wellness training. And we do have a formal plan to implement. Due to changes in our training calendar, our goals for 100% participation were not met. But our goal to train in health and wellness, albeit modest at 70%, was exceeded with more than 94% participation in most of our mandatory courses.

Further, we began pursuing a more fitting healthcare accreditation through CARF/CCAC, given our role as a CCRC. This will cover all levels of care that we currently provide.

Also, we completed a succession plan for all nursing staff ... yet we lack such a plan for other professions. And finally, our professional development marks fell short of their targets.

GOAL - Culture of Integrity:
Inspire commitment to AFRH Guiding Principles through mutual respect.

Given the cultural diversity of our staff, we have focused on creating workplace harmony in recent years. Today, we are promoting activities for management and staff, both in- and outside the workplace. For two years, we have engaged in team building at various off sites. Plus, we typically have a high turnout at employee days, agency picnics and golf events with the residents.

One major achievement was completing 100% of all performance reviews and Performance Plans. This has allowed every staff member to connect to our Vision, Mission, Goals and Guiding Principles – and to see where they fit into our Performance Plan. Incidentally, the Objective to administer an “organizational climate” survey is in development, but will not yield results till early in FY08.



Performance Achievements, continued



GOAL – Exceptional Service:
Enhance the AFRH experience to enrich the quality of residents’ lives.

The residents are the main focus at AFRH. So, most of our budget is directed at programs, staffing and operations in their direct support. A key measure of satisfaction is feedback via surveys. Our Goal is to receive a “good” or “better” rating from 75% of respondents – and we have met that Goal.

This retirement home is unique, given our residents’ US military service. So we’ve made a concerted effort to promote military heritage on the Washington campus. Our aim was to facilitate and attend six military-related events a year – and we exceeded that target with a total of 10 in FY07.

Communicating with the residents is key. To keep them informed, we revamped the afrh.gov website, launched Channel 99/100 (our in-house TV station) and published news about the Gulfport rebuild and our Master Plan.

To reach prospective residents, we must stay highly visible at national veterans’ conventions, popular retiree activities and veterans’ service organizations. So, we created a vibrant marketing and outreach program to convey the benefits of life at AFRH. In fact, we produced a new marketing kit featuring beautiful imagery, inspiring copy and handy application information.

As a small Federal agency, AFRH has focused on one or two PMA initiatives⁵ each year:

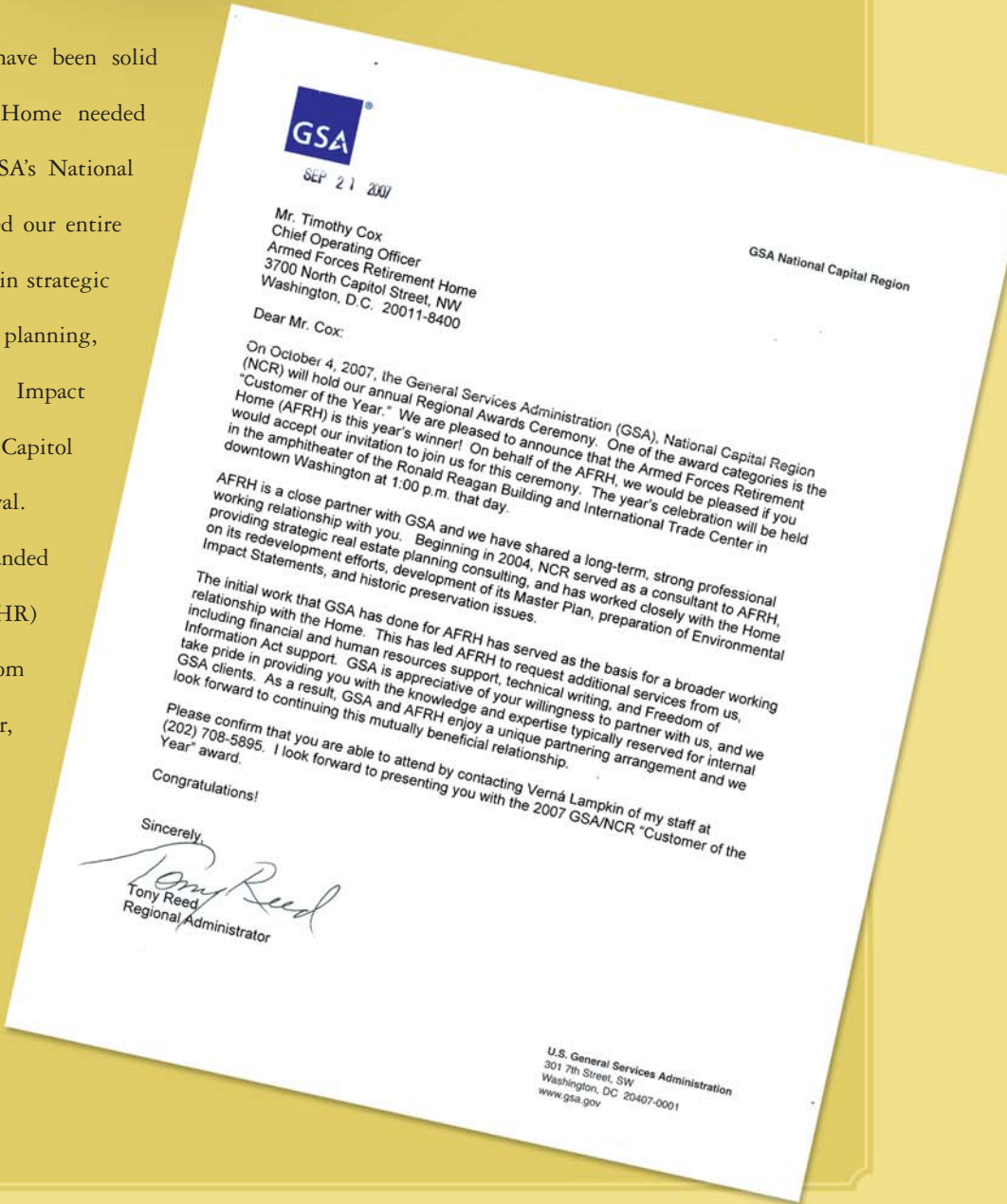
- 2004: Competitive Sourcing
- 2005: Strategic Management of Human Capital & Improved Financial Performance
- 2006: Expanded Electronic Government
- 2007: Improved Financial Performance

⁵For a detailed discussion, see PMA.

AFRH WINS GSA
“CUSTOMER OF THE YEAR”
AWARD FOR FY 2007

Since 2004, AFRH and GSA have been solid business partners. When the Home needed expert advice, we consulted with GSA’s National Capital Region (NCR). GSA managed our entire Master Plan package, providing help in strategic real estate planning, redevelopment planning, historic preservation, Environmental Impact Statement preparation, plus National Capitol Planning Commission (NCPC) approval.

The success of this initial work expanded into financial and human resources (HR) support, technical writing and Freedom of Information Act support. Together, we have enjoyed a mutually beneficial partnership for four years now. Today, we are excited and honored that GSA has selected the AFRH as its “Customer of the Year” for 2007.



Summary of Performance Measures

86%
of goals
achieved

| Performance Measure | Baseline FY07 Targ t | Baseline FY07 ACTUAL | Met/Not Met |
|--------------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------------|-------------|
| Goal: FINANCIAL GROWTH | | | |
| Net growth to AFRH Trust Fund | Any gain over previous year | +\$13 million | Met |
| Cost savings via Asset Management per year | \$500K | Saved \$707K by closing Pipes | Met |
| Accuracy of Financial reporting | Unqualified audit opinion | Unqualified audit opinion | Met |
| Solvency of AFRH Trust Fund | Even balance of resources vs. obligations | Balanced | Met |
| Cost savings initiatives | 4 | 6 | Met |
| Effectiveness of the acquisition strategy | % of award dates that are met or improved | Not measured | Not Met |
| Percentage of inaccuracies found through Internal Controls | 5% or less | .5 % (1/2 of 1%) | Met |
| Goal: IMPROVED PROCESSES | | | |
| OPERATIONAL: Reengineered processes with automated enhancements per year | +2 | 3 | Met |
| ORGANIZATIONAL: Communications enhancements between employees and residents per year | +1 | 1 | Met |
| Goal: LEARNING & GROWTH | | | |
| Evidence of measurable training goals | 100% participation in 4 mandatory training classes 4 for all staff | Less than 100% participation in mandatory training classes for all staff | Not Met |
| Percentage of training written into employee performance plans | 100% | 100% | Met |
| Evidence of a needs based succession plan | Plan | Nursing Plan written | Met |
| GOAL: CULTURE OF INTEGRITY | | | |
| Number of additional cultural/volunteer programs | +1 | +1 | Met |
| Number of employee offsite activities | 2 | 2 | Met |
| Percentage of completed employee performance reviews | 100% | 100% | Met |
| Percentage of Employee Climate Survey responses of "Excellent" or "Very Good" | 70% | - | Not Met |
| Goal: EXCEPTIONAL SERVICE | | | |
| Percentage of Resident Service Survey responses of "Excellent" or "Very Good" | 75% | 75+% | Met |
| Number of new Independent Living residents | +144* | +172 | Met |
| Number of military heritage related events per year | 6 | 10 | Met |
| Number of partnerships with external stakeholders | 5 per year | 5 | Met |
| Percentage of employees trained in health and wellness model of retirement living | 70% | 94% | Met |

Grouped by Strategic Goals, we have several performance measures for our new baseline. FY07 is the first year we will record the results. In future years, we will compare all results to these baseline targets.

Our great success in finances and planning are a prelude to achieving additional goals in the future. (See Part 2 - Performance - for details.)

Management Challenges

| FY07 Challenge | Strategic Goals & Objectives to address Challenge | PMA Items related to Goals & Challenges |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Achieving our mission with a multi-cultural workforce | Culture of Integrity -Increase teamwork & cooperation among employees -Engage & motivate the workforce | (#3) Strategic Human Capital (#2) Competitive Sourcing |
| Satisfying demands of an aging resident population Providing high quality residential care in the spirit of health & wellness Connecting current residents with their military heritage | Exceptional Service -Craft a resident-focused environment with service measurements -Enhance customer satisfaction through vibrant community outreach -Promote resident vitality & independence as long as possible | (#3) Strategic Human Capital (#5) Expanded Electronic Government |
| Maintaining the solvency of the AFRH Trust Fund Keeping the Home financially self-sufficient | Financial Growth -Increase revenue resulting in a net increase -Reduce costs resulting in a net increase -Enhance fiscal management -Change corporate operating model | (#4) Budget Integration (#2) Competitive Sourcing (#5) Expanded Electronic Government (#1) Improved Financial Performance |
| Maximizing resources via efficiencies & technology | Improved Processes -Simplify & standardize processes -Optimize our use of technology solutions -Increase timeliness & satisfaction with communications | (#5) Expanded Electronic Government (#1) Improved Financial Performance |
| Ensuring qualified, trained & professional personnel for the residents | Learning & Growth -Provide a comprehensive staff training program tied to performance, competencies & accountability -Develop & manage workforce talent -Develop a strategy for staff professional development | (#3) Strategic Human Capital (#1) Improved Financial Performance |

Improving Our Enterprise

The PMA is a strategic tool to greatly improve the management and performance of the Federal government. This program was modeled after the President’s vision for the government to operate like a business – efficiently and effectively. The AFRH heeds the guidance in the

PMA and continues to make significant progress in each of its five Initiatives. The Home has not officially submitted for evaluation, but every year since FY04, we have conducted a self-assessment as of September 30th.



“The recommendations we have targeted address the most apparent deficiencies where the opportunity to improve performance is the greatest.”
—George W. Bush

Special Focus on Improved Financial Performance

Background

All spending at the Home comes straight from the AFRH Trust Fund. So, we must maintain a healthy balance between our revenues and expenditures to preserve the Fund’s vitality.

Washington Master Plan

This Plan strives for new revenue to support our resident-focused care. It will help grow the Trust Fund and give us more capital to improve the campus. The Plan seeks to attract development at a fair market value that is compatible with the AFRH Mission. In summer 05, an open dialogue with the residents and neighbors began. At the close of FY06, one major milestone was reached: we chose three potential developers for the first AFRH redevelopment project. Initial revenue is planned for 2012 and is forecast to be just over \$1 million. Year 2013 should yield about \$14 million. Years 2014-2016 should yield more than \$24 million each year. Looking further out, our total predictions exceed \$600 million.

Gulfport Master Plan

The cost to rebuild this campus was funded through a Congressional Hurricane Supplemental totaling approximately \$236 million. The GSA, via legislation and an MOA, are managing the rebuild process in tandem with AFRH and NAVFAC.

Progress

At present, progress is “Green” and we are on track. Since FY04, we have been refining our Gulfport and Washington Master Plans. With the PMA as a guide, we literally transformed the way we do business. Only 43 percent of our budget is in labor. Fortunately, since 2003, our “One Model” for operations has eliminated duplicate functions at each campus. In Washington, we closed excess buildings and out-sourced all services that were not resident-focused. The bottom line: we changed how we think and work. As a result, the Trust Fund balance has grown dramatically – rising from its low of \$94 million in 2003 to \$159 million in 2007. Plus, the FY07 audit produced our third straight “unqualified opinion.”

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---------------------------------------|---------|---------|---------|---------|
| Improved Financial Performance | ● | ● | ● | ● |
| Competitive Sourcing | ● | ● | ● | ●* |
| Strategic Management of Human Capital | ● | ● | ● | ● |
| Budget & Program Integration | ● | ● | ● | ● |
| Expanded Electronic Government | ● | ● | ● | ● |

● Excellent ● Fair ● Poor

*Inefficiencies arose from Hurricane Katrina

Improved Financial Performance, continued

07 STUDY Contract Integration & Efficiency Study

Goal: to determine if any cost or time-savings could be applied to our contracts – while still maintaining effective campus operations. This study determined the best ways to manage, consolidate, administer or even re-procure contracted actions to maximize efficiency.



AFRH INTRANET

Washington Developments

We passed major milestones in our plan to draw revenue from surplus real estate. Crescent Resources LLC, a North Carolina-based builder, was selected as the preferred developer for a 77-acre parcel of land. We envision the stretch of land along North Capitol Street having a small hotel, supermarket, condominiums, market-rate rental apartments, 300 units of affordable housing, plus transitional facilities for veterans. Our briefing to the NCPC in August was well received. Now, we’re poised to continue on schedule with GSA as our development partner.

Gulfport Progress

In FY07, we enjoyed smooth sailing in our plans to rebuild Gulfport. Demolition of the resident tower is slated for October 07, with campus completion targeted for July 2010.

Status

AFRH has no chronic or significant Anti-Deficiency Act Violations, no material auditor-reported internal control weaknesses and no material non-compliance with laws or regulations. Plus our agency head has provided an unqualified statement of assurance in this Report.

Today, we are continuing to grow and evolve. We’re proud of our financial success, which has eluded AFRH in the past. With a change in thinking, a strong management team, and a clear vision, the Home is poised for continued success. Not without risks and challenges, mind you. Thus, AFRH has achieved a “Green” in Improved Financial Performance.



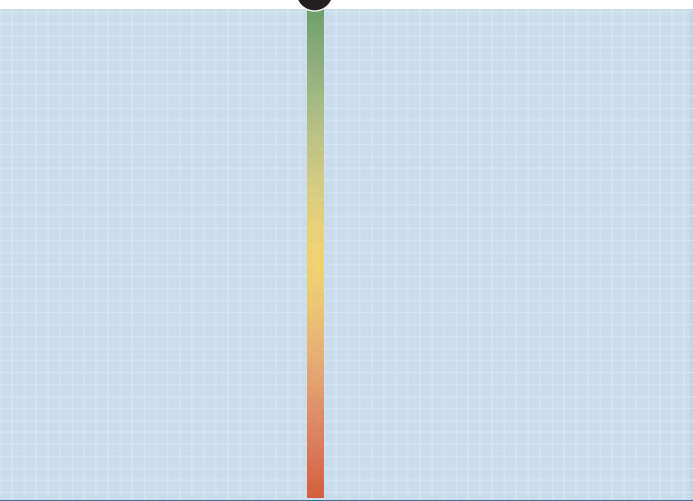
07 STUDY Trust Fund Solvency

A key study was conducted to test the solvency of the AFRH Trust Fund. To our delight, it showed that the Fund is solvent through FY18 – as measured by Net Cash Flow, annual Trust Fund balance and 2018 Trust Fund balance. This fiscal forecast is based on innovative strategic elements in the management plans that seek to:

- Reduce various operating expenses
- Improve operating efficiency via building renovation
- Optimize levels of care for residents
- Increase revenue via long-term lease of real estate

Naturally, if the plan cannot be realized, it would present a major risk. Therefore, we will develop action plans to stay on course, along with contingency plans just in case. Also, we will track and update our resident population data and monitor results of both Master Plans.

Progress Status



| | Years 1-10 | Years 11-20 | Years 21-30 | Total |
|-------------------------------|---------------|---------------|---------------|---------------|
| Projected Payments to AFRH | \$183,875,415 | \$180,099,102 | \$242,079,215 | \$606,053,732 |
| Per SF-FAR (Years 10, 20, 30) | \$8.80 | 6.88 | 9.25 | |

Competitive Sourcing & Human Capital



The AFRH “Catch Me at My Best” program salutes exceptional staff performance.

Competitive Sourcing

Background

AFRH has actively engaged in competitive sourcing by conducting seven various efficiency studies. (Six were performed in FY04 and categorized as “Streamlined.” One was performed in FY05 and classified as “Standard”).

In FY06, our contracts expanded, due to the dramatic increase in residents from Gulfport. In fact, key changes were required in Transportation, Food Service, Custodial, Security, Garbage and Facilities Maintenance in Washington.

Progress

Our adage is: “Simplify operations to conserve dollars.” So in FY07, we searched for cost savings and identified excessive spending. Then, new studies were commissioned to evaluate overall contract integration and efficiency.

Status

AFRH has achieved “Yellow” in competitive sourcing. This year was spent commissioning various studies. Now with definitive findings, we’ll be ready to take action in FY08. As we move forward, several other areas are also targeted for extra cost savings.

07 STUDY Information Technology Assessment

Our office equipment (e.g., copiers and printers) is due for an overhaul to boost campus productivity. Working with DAPS⁶, we conducted a campus copier analysis and evaluated agency workflow. Plus we defined our requirements for printers and copiers. Currently, DAPS is finalizing the assessment report to include lease or replacement options, as well as maintenance recommendations. The report is due by first quarter 08.

Strategic Management of Human Capital

Background

The goal of this Initiative is to build, sustain and effectively deploy a workforce that is skilled, knowledgeable and diverse. In the process, agency strategies are aligned with the corporate Mission, Vision, Guiding Principles, Goals and Objectives – yielding an organization with a high-performance culture.

As in years past, we have fully aligned our actions with the Home’s Strategy and Goals again in FY07. We integrated competitive sourcing to reduce full-time equivalents (FTEs) and boost staff quality. Plus we systematically measured performance on 100 percent of our staff’s performance appraisals.

Progress

In FY07, we successfully completed the first cycle of our Performance Plan. In January, we began the new cycle in accordance with our schedule. Meeting our goal, we have given 100% of our employees their Performance Plans - and each one cites our Guiding Principles, AFRH standards and the employee’s unique job standards.

BPD’s Administrative Resources Center (BPD-ARC) executes many of our HR operations. The National Finance Center (Department of

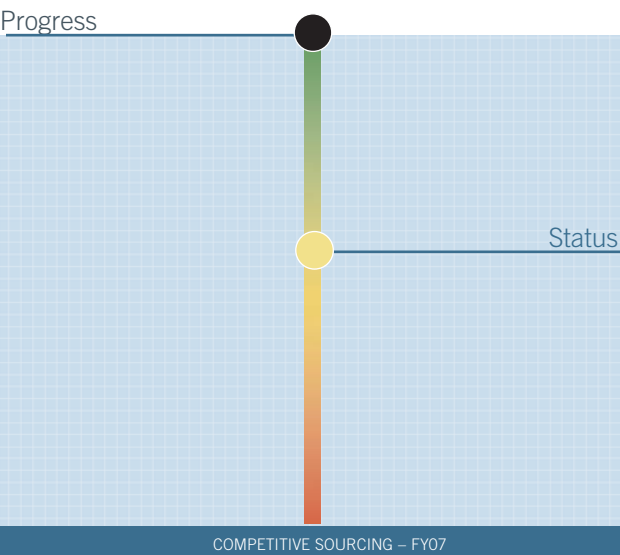
Agriculture) manages our personnel/payroll system. And GSA supervises our Equal Employment Opportunity (EEO) program. To gain insight on the effectiveness of these partnerships, OPM conducted a periodic inspection of our HR practices in September 06, as a part of its statutory mandate. The results presented in FY07 highlighted the benefits of these innovative and far-reaching franchise agreements. So, progress for this Initiative is “Green.”

Status

Last year, just one key PMA criteria was not addressed: succession strategies. This year, we completed one for our nursing staff, which is the largest component of our workforce. Our Learning & Growth Goal – which entails four mandatory training courses, 136 hours of health and wellness model training, as well as professional development – is not complete. While our modest goal of “70% of all staff trained” was met and exceeded, we still have room to improve. Since we changed our training records from calendar year to fiscal year, our numbers for FY07 appear to be lower. But next year, we’ll be able to demonstrate much better attendance. So, while our progress is “Green”, our status remains “Yellow.”

07 STUDY Wellness Center Study

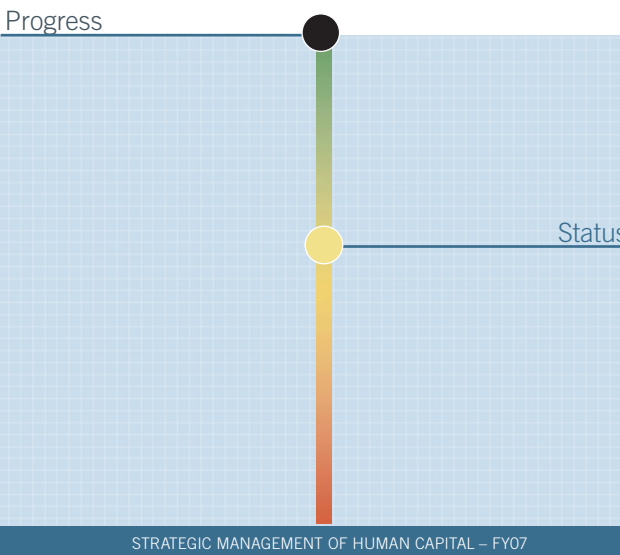
We studied the on-campus Wellness Center to unearth potential cost savings in overall operations.



COMPETITIVE SOURCING – FY07

07 STUDY Medical Equipment Needs Assessment

A needs assessment had never been performed on medical equipment. Now, we are focusing on acquiring new equipment to satisfy the residents’ needs.



STRATEGIC MANAGEMENT OF HUMAN CAPITAL – FY07

⁶Document Automation and Production Service (in the Defense Logistics Agency)

Budget & Program Integration and E-GOV

Budget and Program Integration

Background

The AFRH Strategic plan has been revamped and a limited number of Goals and Objectives have become our performance indicators. Our performance appraisal plans for 100% of agency positions are linked to agency Mission, Goals and outcomes. Also, AFRH has at least one efficiency measure for each program. Yet, we have not been able to collect this data for more than two years in a row due to all the upheaval after Hurricane Katrina. So, this year is our baseline target.

Progress

Today, we are proud to demonstrate what portions of operating expenses are spent to achieve various Strategic Goals. (See pie chart below.) This is a giant leap forward for AFRH and this endeavor has been planned for some time. With FY07 as a baseline, we will leverage this new data to readjust our priorities.

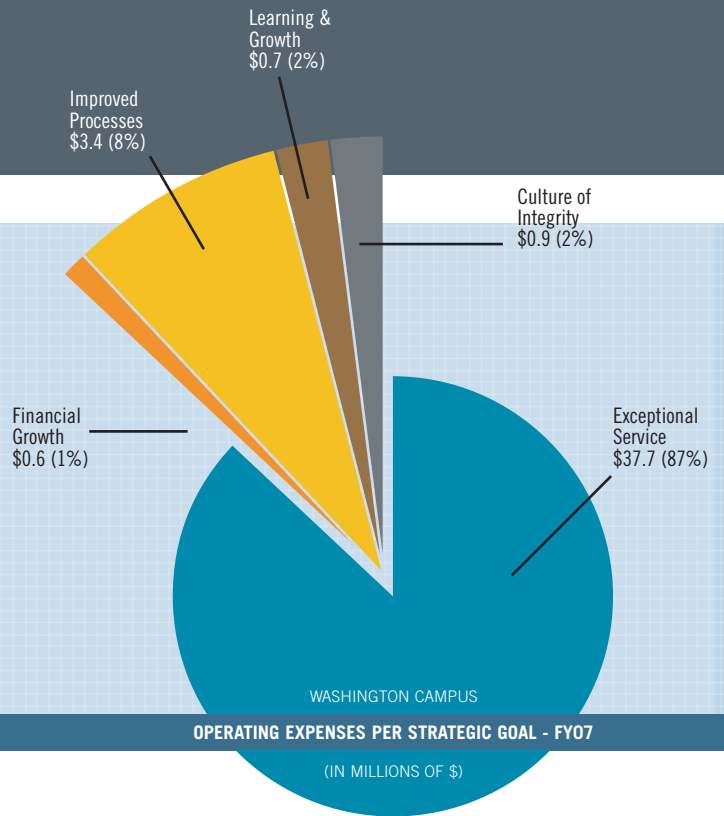
Further, we've been working hard on many levels to completely integrate our budget and performance.

Status

The performance link, from strategy to individual accomplishments, continues successfully – because operating expenses are now tagged to our Strategic Goals.

As expected, the majority of expenditures are on Excellent Service for the residents (87%) here on our main campus. Through other PMA initiatives, we have lowered costs and maintained a high performance organization. At the Corporate level, our expenditures are more evenly distributed among Goals, with a slightly higher percentage in Improved Processes (37%). Now we have proof for our stakeholders that our budget aligns with performance.

Yet, simply aligning them is not sufficient. We must analyze them to ensure our results equate financially. Since we have more work to do, the status for Budget and Performance Integration remains “Yellow.”



Expanded Electronic Government (E-Gov)

Background

The PMA requires all agencies to furnish a “modernization blueprint” for E-Gov. It should focus on IT investments in key functions and define how they’ll be measurably improved. The new AFRH enterprise platform is now aligned with our agency’s Mission and it is implemented enterprise-wide.

Progress

We’ve made great strides to fully conform to agency-wide E-Gov. We addressed key issues, many of which were identified during our last IG assessment. We greatly enhanced communications and reduced costs. Plus, we transformed our in-house managed systems to externally hosted resources – thus maximizing web-based technology.

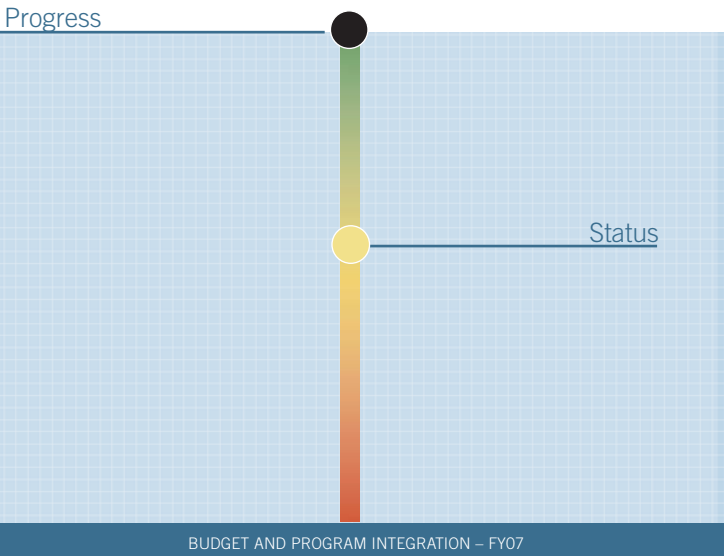
In FY06, we earned our official security Certification and Accreditation (C&A), as outlined by the National Institutes of Standards and Technology (NIST).

Status

In FY06, we highlighted E-Gov as the focus of our success. Today, we are studying copiers and printers for consolidation. We are also looking to move away from GSA’s FTS 2001⁷ to other network solutions. Further, we’re looking at new opportunities in service consolidation and equipment disposal. We are exploring options for appropriate IT contract vehicles. Plus we’re continuing our strong campaign to comply with FISMA, the C&A and 508 requirements. In short, our E-Gov initiatives are on target, so the status is “Green.”

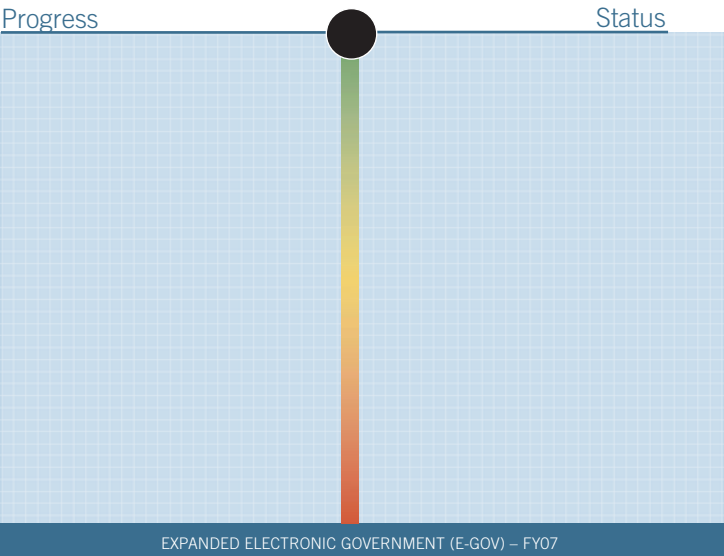
⁷Worldwide telecommunications solutions (i.e. voice, data, wireless and video – a collaboration suite)

Progress



BUDGET AND PROGRAM INTEGRATION - FY07

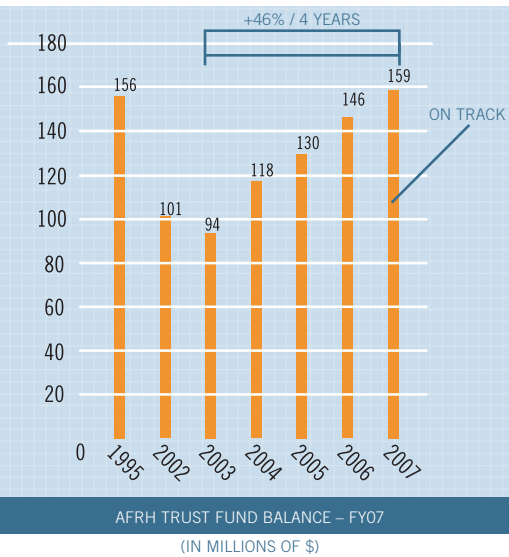
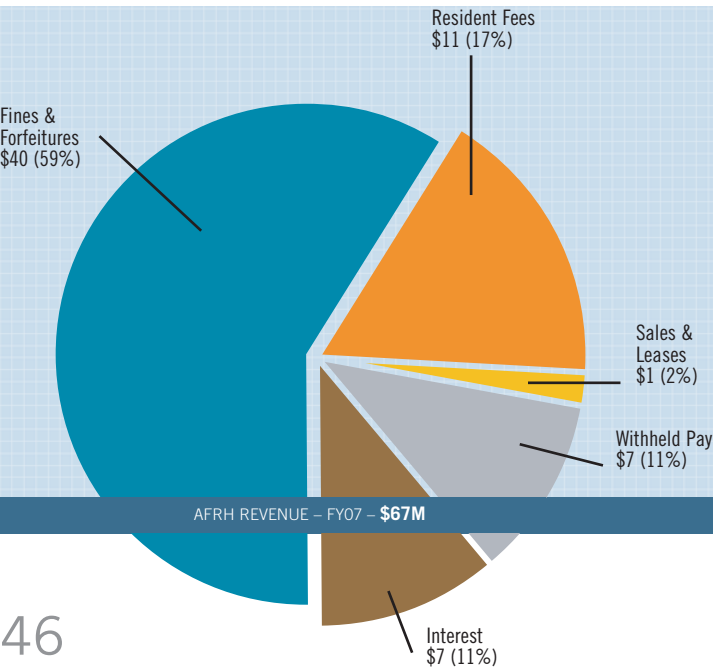
Progress



EXPANDED ELECTRONIC GOVERNMENT (E-GOV) - FY07

Financial Summary and Highlights

Stanley Sagara (Air Force – Retired) visits with his cousins from Japan, Kumiko and Yuki. In September, the two college students came to visit him and tour America for the first time.



Designing Our Renewal

A permanent Trust Fund was established in the 1800s to maintain the Home – so it wouldn’t rely on taxpayer money. Ever since, active duty payroll deductions from enlisted and warrant officers (ranging from \$.10 - \$.50 per month) have funded operations.

The Trust Fund is also fed by fines and forfeitures from all Branches of the Services, monthly resident fees, the sale or lease of underutilized land and buildings, gifts and bequeaths, interest gained on the Trust Fund balance plus certain one-time situational gifts and appropriations from Congress.

Trust Fund Balance

The true gauge of our success is the Trust Fund Balance. By 2003, operating costs greatly increased over previous years – eventually outpacing our revenue. Hence, the Trust Fund balance declined from \$156 million in 1995 to \$94 million in 2003. So renewing it became a critical mandate to retain the Home’s solvency. We concluded our operating model had to change. In swift fashion, we followed the Federal government’s lead for an integrated strategy – linking

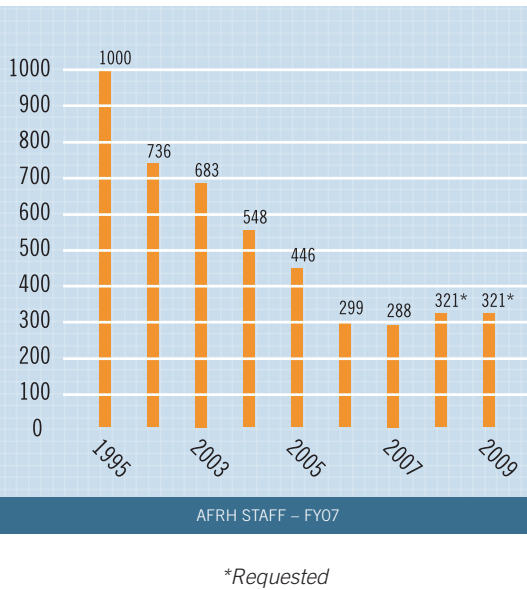
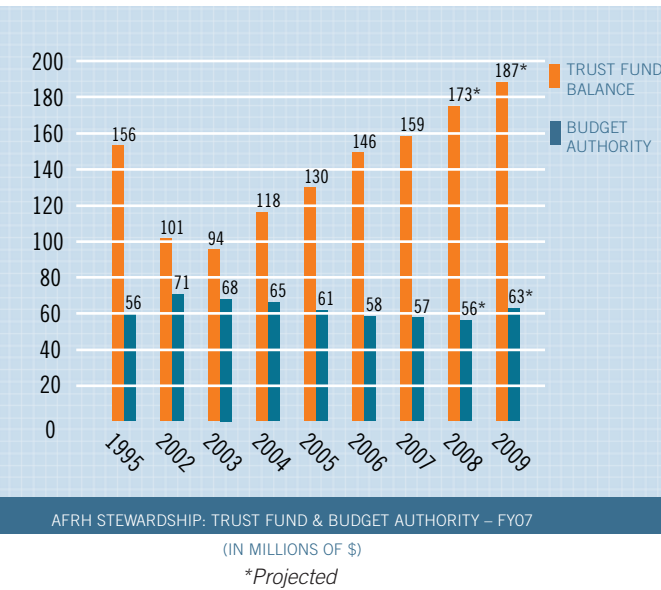
planning with budget and performance. By the end of FY07, we were back on solid ground and the Fund had topped \$159 million.

Appropriations:

Each year, AFRH submits a budget to Congress to withdraw funds from the Trust Fund through an annual appropriation. Although we only requested \$55 million for FY07, we were given \$57 million under the Continuing Resolution Act (CRA).

Staffing

Streamlining the staff has been a Strategic Initiative for several years. The chart below (AFRH Staff) shows our anticipated needs for full time equivalent employees based on the best data available. For now, the Washington campus is the focus of all operations. The Gulfport campus hasn’t had any FTEs since early FY07, when the property was turned over to GSA. Yet, we will continue to plan for new staffing when Gulfport reopens in 2010.



Assets, Liabilities & Cumulative Results of Operations

Generating Sound Financials

Assets, Liabilities & Cumulative Results of Operations

For FY07, our Consolidated Balance Sheet reflects:

| | |
|--------------------|----------------|
| Total Assets: | \$ 465,615,106 |
| Total Liabilities: | \$ 7,048,896 |

About 15 percent of our assets are property, plant, and equipment (PP&E), with a book value of \$72,018,853. This PP&E is located on the Gulfport, MS campus and the Washington, DC campus.

Limitations of the Principal Financial Statements

These statements were prepared to report our financial position and operations results, pursuant to the requirements of 31 U.S.C. 3515(b). They were prepared following generally accepted accounting principles (as defined by The Chief Financial Officer's Act of 1990 and OMB). Plus these statements are in addition to financial reports prepared from

the same books and records used to monitor and control budgetary resources. We are pleased to report AFRH is in compliance with all relevant laws, statutes and legislation.

We accept the responsibility of reporting performance and financial data accurately and reliably. So all data for this report was gathered and reported through systems of rigorous controls and quality checks. AFRH employs BPD-ARC to perform its financial management. BPD-ARC's expertise is superb and it provides us with outstanding reporting services.

Financial & Performance Results Integration

Led by the Vision and Mission, our COO is ensuring that the Home's carefully crafted Strategic Plan is directing staff to improve performance – as well as the bottom-line.



When it comes to Exceptional Service, AFRH is a cut above.



"He missed the tag."
Here, residents watch the AFRH Diamondbacks try to win a close ballgame.

Financial Statements Summary

Brown and Company, PLLC is a firm of CPAs and Management Consultants. As independent auditors, they have given AFRH an "unqualified opinion" for FY07. They have also reported no material weaknesses.

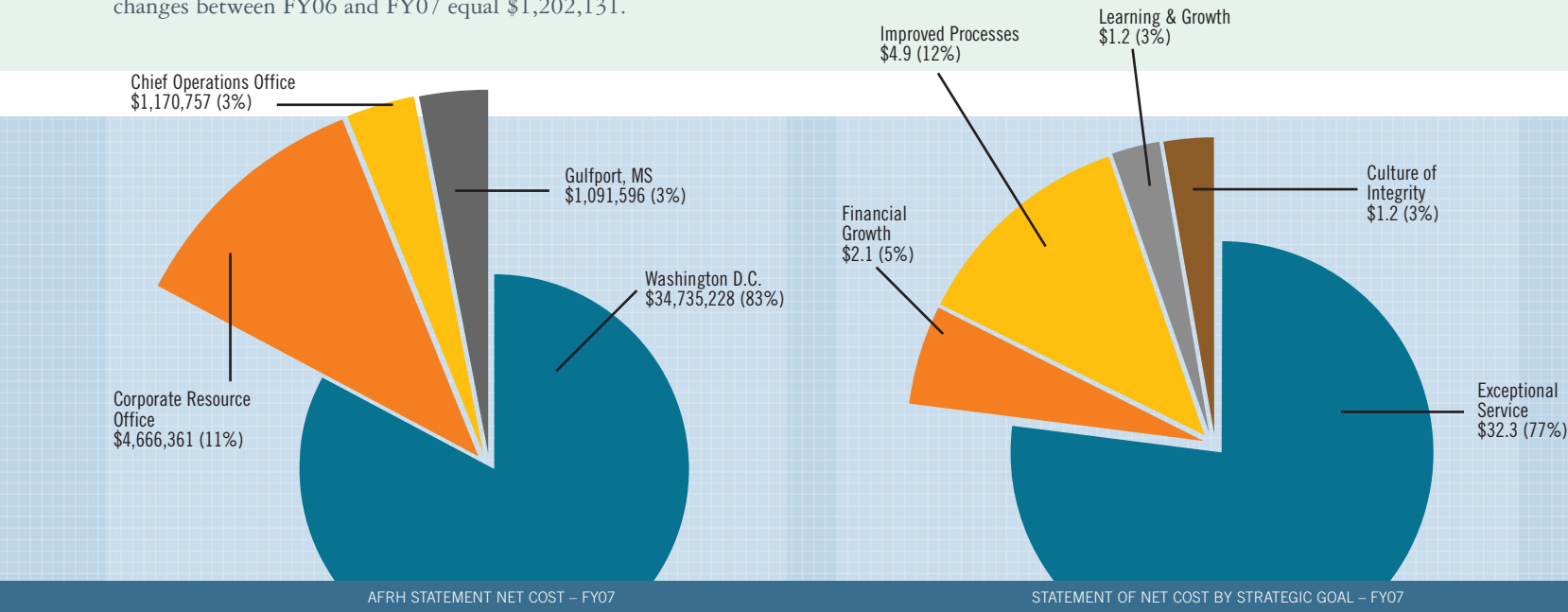
Assets:
—Net changes between FY06 and FY07 equal \$7,810,756.
—Investments and the Trust Fund Balance equal 84% of our assets.

Liabilities:
This represents the money AFRH will likely pay, as a result of transactions or services that have already occurred. No liability can be paid absent an apportionment. Total AFRH Liabilities at the end of FY07, as reported in the financial statements, were \$7,048,896. Net changes between FY06 and FY07 equal \$1,202,131.

Net Cost by Strategic Goal

The Home's net cost of operations is \$41,708,433 for FY07 – down \$9,079,541 from FY06. The majority of costs incurred by AFRH go directly toward Exceptional Service. Costs associated with programs under the COO and the Corporate Resource Office support each campus and all five Strategic Goals.

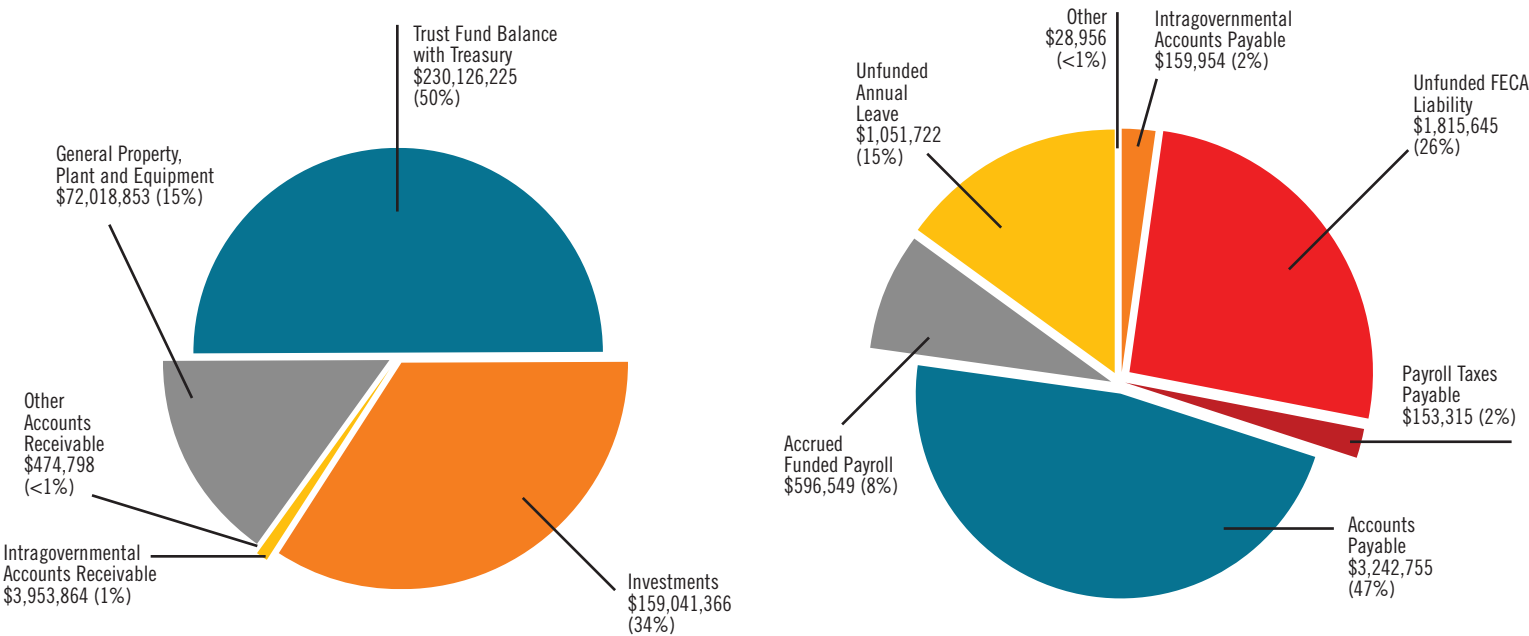
In FY06, 87% of the net cost went toward operating residential facilities and programs, (including the closure of Gulfport). In FY07, 83% of all net cost was mostly for the Washington campus with minimal support for Gulfport. By Strategic Goal, the major net cost was 77% for Exceptional Service. These figures validate our strategy for resident-focused care.



Letter of Assurance



“I can provide reasonable assurance that objectives have been achieved for FMFIA, FFMIA and FISMA.”



Creating New Confidence

Management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the Federal Managers’ Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA) and the Federal Information Security Management Act (FISMA).

So, AFRH conducted its annual assessment of internal controls and compliance, per the Management’s Responsibility for Internal Control

(OMB A-123). Yet, our managers continually monitor activities, gain insight into proper reporting and make corrective actions.

In FY07, we achieved many key actions under the Strategic Goal of Financial Growth. This can be greatly attributed to our public-to-public transfer of integrated services (supporting our financial management system) to BPD-ARC and NFC in 2004 – which has produced three “unqualified opinions.”

An independent audit was performed on BPD’s financial management systems (i.e., the controls placed on the financial management systems and operating effectiveness from July 1, 2006 -- June 30, 2007). This assurance via Standards Number 70 (SAS70) validates the integrity of AFRH management controls and our compliance with Federal financial systems standards.

In September 06, we sought and received security C&A for the AFRH IT Enterprise Network. That C&A will be renewed in FY08.

I can provide reasonable assurance that objectives have been achieved for FMFIA, FFMIA and FISMA. As of this writing, we have no material weaknesses to report.

I am very pleased with our accomplishments – and I am highly confident that our positive fiscal progress will continue in the future.

Sincerely,

Timothy C. Cox

Timothy C. Cox
Chief Operating Officer, AFRH
November 15, 2007

| ASSETS | FY07 | FY06 |
|---------------------------------------|----------------|----------------|
| Trust Fund Balance with Treasury | \$ 230,126,225 | \$ 239,123,692 |
| Investments | \$ 159,041,366 | \$ 139,563,566 |
| Intragovernmental Accounts Receivable | \$ 3,953,864 | \$ 2,687,343 |
| Other Accounts Receivable | \$ 474,798 | \$ 554,056 |
| General Property, Plant & Equipment | \$ 72,018,853 | \$ 75,875,693 |
| TOTAL | \$ 465,615,106 | \$ 457,804,350 |

| LIABILITIES | FY07 | FY06 |
|------------------------------------|--------------|-------------|
| Intragovernmental Accounts Payable | \$ 159,954 | \$772,159 |
| Unfunded FECA Liability | 1,815,645 | \$1,777,219 |
| Payroll Taxes Payable | 153,315 | \$155,028 |
| Accounts Payable | 3,242,755 | \$3,471,327 |
| Accrued Funded Payroll | 596,549 | \$778,426 |
| Unfunded Annual Leave | 1,051,722 | \$1,162,838 |
| Other | 28,956 | \$134,030 |
| TOTAL | \$ 7,048,896 | \$8,251,027 |

Controls, Systems and Compliance

The Federal Manager's Financial Integrity Act (FMFIA)

This Act requires an agency to report on the health and integrity of its financial, program and related activities. It ensures that resources are consistent with the overall Mission, that programs achieve their intended results, and that those programs and resources are free of waste, fraud and mismanagement. Further, the agency head must see that Laws and regulations are followed and financial management complies with Federal standards.

2007 STATUS: No “material weaknesses” have been identified.

Internal Control

Since 2006, AFRH has conducted its own Internal Control Board using an AFRH Senior Assessment Team. Through the Home’s CFO, managers are given a questionnaire to evaluate their own internal control structure, define effective controls and institute improvements for deficiencies (e.g. a "Risk Assessment"). Each quarter, the Senior Assessment Team reviews the Home’s overall progress, then evaluates the Corporate Resource Office and Director.

Inspections

Triennial Inspector General

AFRH submitted an update to the Air Force Triennial Inspector’s Report from April 06. Onsite inspections of both campuses were performed, along with assessments of agency level oversight. In August 07, Department of Defense (DoD) officially closed the inspection report, citing the completion of all recommended actions. A US Army Inspector will conduct the next inspection in FY08. And all completed actions will form the baseline for subsequent reviews.

DoD / JCAHO

This year, we responded to serious allegations aimed at our healthcare management, with oversight by an anonymous party. These claims were found to have no merit by the inspection teams dispatched by the Office of the Secretary of Defense. Still, we took extra measures to investigate them by requesting an independent audit of our healthcare facilities from JCAHO. It also found no evidence to support the claim. Moreover, we are now seeking CARE/CCAC accreditation to cover our CCRC services.

INTERNAL CONTROLS

| | | | | |
|----------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------|
| AFRH Inspector General | AFRH Ethics Officer | Resident Town Hall meetings with Director | Chain of command review & approval of policies and procedures | Risk Management strategy via Washington & Gulfport Master Plans |
| EEO Office | Dining Customer Service Program (comment cards, action committees) | AFRH Strategic Plan | Annual AFRH PAR published | AFRH Multi-Year Capital Improvement Plan |
| AFRH Senior Assessment Team | CFO Management Assurances | AFRH Corporate Resources Business Plan | Mandatory AFRH IT Security Awareness Training | AFRH 10-Year Financial Capital Plan |
| Corporate Resources Offices annual self-evaluation & risk assessment | COO Management Assurances published in annual PAR | AFRH Performance Plan | AFRH IT Review Board | AFRH Management Challenges identified by IG in PAR |
| AFRH Internal Control Directive | Open meetings for residents with COO | Resident surveys | AFRH Resident Advisory Council | AFRH Directives & Policies |
| AFRH campus annual self-evaluation & risk assessment | | Service pilot program in Health & Wellness Center | AFRH Ombudsman | |
| | | AFRH IG Employee Hotline | | |

EXTERNAL CONTROLS

| | | | | |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------|
| Triennial Inspection by one of the services’ IGs JCAHO routine & on the spot inspections BPD-ARC for financial management | Independent IT security C&A for compliance with FISMA, Computer Security Act & OMB Circular A-130 | PMA - self assessment | FMFIA compliance | Homeland Security Personal Identification Verification template in compliance |
| Annual Independent Audit of AFRH Financial Statements | OPM routine inspections | AFRH Local Advisory Board | FFMIA compliance | National Finance Center for payroll & time/attendance data entry |
| | Food and Drug Administration's (FDA) Food Code | Bolling Air Force Base Judge Advocate General | IPIA compliance | OMB |
| | US Army Sanitation inspections | Office of Undersecretary for Personnel & Readiness, OSD | Website for Washington Master Plan on afrhdevelopment.com | |
| | | Website for AFRH documents on afrh.gov | Occupational Safety and Health Administration (OSHA) | |

Young Francis worked the family farm for 10¢ a day. “I could handle a horse like nobody’s business,” he boasted. Sadly, his folks lost their Iowa farm in the Depression. So he joined the Civilian Conservation Corps to learn soil erosion and forestry. Then he joined the Army and was in Pearl Harbor on December 7, 1941. “We were in the dining hall when bullets shattered the windows – and two guys on either side of me were shot. I had to siphon gas from a truck to clean boxed rifles – then I fired back.” Years later, he never forgot his family’s farm debt. “I worked day and night till I paid off \$65,000.” Well America certainly is in debt to Francis.



Francis Stueve (Air Force – Retired)

Controls, Systems and Compliance, continued



Federal Financial Management Improvement Act (FFMIA)

FFMIA is designed to improve Federal fiscal management by requiring that financial management systems provide reliable, consistent disclosure of data. This is in accordance with generally accepted accounting principles (GAAP) and standards. FFMIA requires the Home to maintain a system that substantially complies with:

- Federal requirements for integrated financial management
- Applicable Federal accounting standards
- US Standard General Ledger at the transaction level

2007 STATUS: AFRH is in substantial compliance with FFMIA requirements.

As we serve our veterans with advanced care, we strive to be as efficient as possible. We rely on BPD-ARC, which underwent an SAS70 audit⁸ in FY07 on its internal control activities, IT controls and related processes. An examination of the accounting process, along with general computer controls provided by BPD-ARC, provided reasonable assurance that our controls would achieve their objectives in conjunction with Customer Agencies' internal controls.

The independent auditors' AFRH report provides reasonable assurance that our financial statements are free of material misstatement. Further, The auditors' reports confirm no material weaknesses in AFRH internal controls.

⁸A Statement on Auditing Standards (SAS No. 70, Service Organizations)

Federal Information Security Management Act (FISMA)

As reported above, the Home underwent its initial inspection and was awarded C&A in IT security (in accordance with FISMA). In FY07, it was maintained.

Financial Management Systems Framework

The Home benefits from the public-to-public relationship that transferred its financial management to BPD-ARC. We use the financial systems that BPD-ARC provides: Oracle Financials 11i, Oracle Assets, PRISM and WebTA. Payroll is through the NFC, which is integrated into the financial management systems.

BPD-ARC personnel operate and maintain the system, ensuring top-notch support. Plus, they have developed and implemented several interfaces into Oracle Federal Financials to integrate key activities – such as e-payroll, procurement, purchase card, e-travel, Federal investments and Intragovernmental Payment and Collection System (IPAC) transactions.

Since FY06, we have used Oracle Asset Manager as part of the Home's integrated suite of tools. Ultimately, BDP-ARC is responsible for the financial security and integrity of the system.

Improper Payments Information Act (IPIA)
(See Part 4: Other Accompanying Information)

Resident Information System (RIS)

After the 2006 implementation of Monette – an integrated resident-focused software package – AFRH is proud to report successful usage in FY07.

Ernest Sylvester (Navy – Retired) shows off his “Catch of the day” at the AFRH 13th Annual Fishing Rodeo. He moved from Washington to Gulfport – and now he’s back again.



Risk Management

Engineering New Safeguards

Background

The National Defense Authorization Act of 2002 permitted us, through DoD, to sell, lease or otherwise dispose of underutilized buildings and property. So AFRH launched its Master Plan for Washington. This forms the basis of our risk management strategy. The desired outcome of the Master Plan is to provide additional resources to replenish the Trust Fund.

Washington Master Plan

Our agency-wide “One Model,” in compliance with PART and the FAIR Act, guided the development of our Washington Master Plan. This key endeavor helped us identify real property essential to the core Mission of AFRH. Likewise, it helped us identify non-critical facilities, target them for lease and establish a future revenue stream. This will enable us to renovate our aging buildings and replenish the AFRH Trust Fund. The current status and updates are available online at afrhdevelopment.com.



We are confident we have the resources, leadership and vision to execute or adjust our plans as necessary – regardless of any risk that may arise.

Master Plan Objectives

Preserve & improve the Home for the residents & staff
Provide revenue to support our Goal of resident-focused care

Replenish the partially depleted AFRH Trust Fund
Grow Trust Fund to meet residents' needs, today & tomorrow

Attract development that's compatible with our Mission, and
Ensure an open, inclusive process with residents & community

Risk Management, continued

Recent Accomplishments

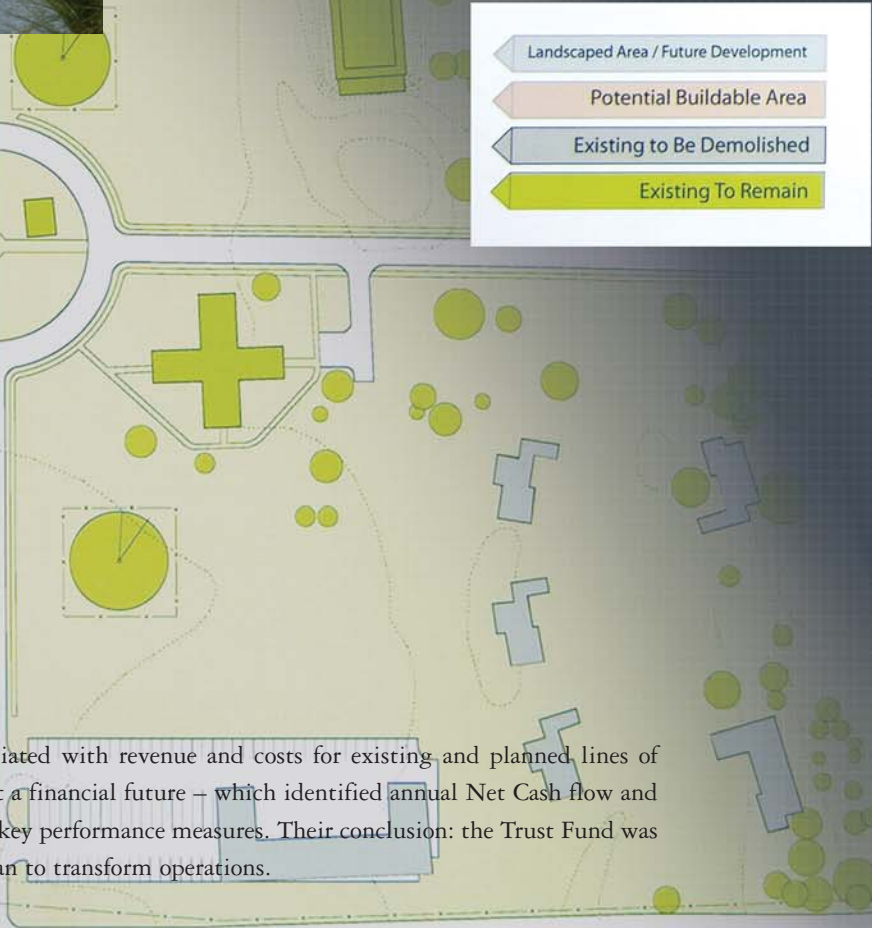
At the end of 2006, an RFP was issued to three developers, as reported in our FY06 PAR. A five-member panel of experts convened by GSA reviewed their proposals. The panel considered each firm's design, financial bid, socio-economic benefits, environmental mitigation and ability to implement the proposal. At last, the panel made its recommendation. AFRH concurred, and in March 07, we selected Crescent Resources, LLC as the preferred developer for 4.3 million SF on the southeast corner of the Washington campus. (See map.)

This dynamic, mixed-use project calls for the adaptive reuse of nine historic buildings and includes about 30 acres of open green space. The project will open portions of the AFRH campus to public enjoyment and recreation for the first time in more than 50 years.

Later in FY07, we consulted our residents, the NCPC, the DC State Historic Preservation Office and Office of Planning, the Advisory Council for Historic Preservation, the Commission of Fine Arts, plus area neighbors and locally elected officials. The NCPC will hopefully approve the plan in December 07.

Gulfport Master Plan

GSA is the agent for the design and construction of the new resident facility. Our progress in FY07 is on track and outlined in detail at the beginning of the MD&A.



07 STUDY

Trust Fund Solvency

This study included an evaluation of risks associated with revenue and costs for existing and planned lines of business. Martin & Wall built a model to forecast a financial future – which identified annual Net Cash flow and annual Trust Fund Balances through 2018 as the key performance measures. Their conclusion: the Trust Fund was solvent through 2018 based on management's plan to transform operations.

07 STUDY

10-Year Financial Capital Plan

To strengthen our risk strategy, we first conducted a 10-year Capital Improvement Plan. AFRH engaged URS Corporation to conduct a facility assessment to identify and estimate the costs to remedy deficiencies in our infrastructure and 28 buildings. The largest costs are associated with the Scott residence, which has deficiencies of over \$81 million. Then, with that analysis, we formulated a realistic 10-year Financial Capital Plan as requested by OMB.

Potential Risks to Trust Fund Solvency:

An unforeseen event could disrupt our Master Plan, Capital Improvement Plan or even our Financial Plan. Also, a variety of adverse market conditions could arise. Even so, the Trust Fund Solvency study concluded that management could act to protect solvency with a) careful monitoring of risk conditions, b) maintaining contingencies and c) taking action to reconfigure operations if conditions change. We are confident that we have the resources, leadership and vision to execute and adjust our plans as necessary - regardless of any risk that may arise.